

Private Label/EDLP Perspective(Past/Present/Future)I. Past (1990 - 1993) Private Labels successful at:

- Providing high per carton profits (higher than FP/BS)
- Growing total cigarette volume/profitability
- Providing "point-of difference" to build loyalty/new business
- Increased overall store sells on non-tobacco related items

 This was possible due to:

- Dramatic growth in the Savings Segment
- Price being a bigger factor than equity/image
- Huge "gap" between FP/BS/LP (50%+; \$1.00 ctn.+)
- Absolute price of FP being "over inflated"
- Frequent price increases

II. Present (1994 - 1996) Private Label performance/contribution has changed:

- Declining in volume
- Declining profitability (per carton/overall), still good profits
- Less consumer demand
- Price no longer the only factor (PL's with equity doing the best)

 Numerous factors affected this change:

- Industry price roll-back (FP/BS)
- Savings Segment growth stopped (declined, now stable)
- Increased discounting on FP/BS
- Less frequent price increases
- Lower absolute price of FP/BS on day-to-day basis

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III. Future (1997 - →)

Private Label will still be extremely viable at:

- Meeting certain consumers needs (about 10-12% Nationally)
- Offering a point-of-difference (customers to consumers)
- Balancing the category portfolio (FP/BS/LP)
- Providing volume/profitability (though at lower levels than in the past)

To be effective, PL's must:

- Offer more than just price (e.g., equity/sound positioning)
- Be effectively priced without giving away profits
- Be a part of a total portfolio approach -vs- free standing "driver"/priority (A Private Label focus is not a model for success moving forward)

Net... Those who continue to live on past expectations of Private Label will be disappointed and fail. Those that evolve the role of Private Label and manage future expectations accordingly can be successful.

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